

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-08 EA-06 ISO-00 AID-05 CIAE-00 COME-00

EB-04 FRB-01 INR-05 NSAE-00 RSC-01 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-20

STR-01 CEA-01 L-01 H-01 AGR-05 FEAE-00 INT-05 DODE-00

PA-01 USIA-06 PRS-01 DRC-01 /093 W

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P R 111715Z OCT 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 7432

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY FOR WIDMAN; PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BOI INTERVENTION FIRST 10 DAYS OF OCTOBER
TOTALED APPROXIMATELY \$427 MILLION. INTERVENTION WAS
REDUCED ON OCTOBER 8 AND 9, AND ON OCTOBER 10 THERE
WAS NO NET INTERVENTION. LIRE DEPRECIATED MARKEDLY
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DURING PERIOD. END SUMMARY.

2. HEAD OF BOI EXCHANGE OPERATIONS, ERCOLANI, TOLD TREASATT THAT MODERATE INTERVENTION CONTINUED FROM MID-SEPTEMBER TO END-MONTH BUT THEN SHARPLY INCREASED WITH BEGINNING OF GOVERNMENT CRISIS ON OCTOBER 3. INTERVENTION ON OCTOBER 4, FOLLOWING RESIGNATION OF RUMOR GOVERNMENT NIGHT BEFORE, REACHED \$85-90 MILLION. INTERVENTION WAS REDUCED ON OCTOBER 8 AND AGAIN ON OCTOBER 9, AND ON OCTOBER 10 THERE WAS NOT NET INTERVENTION. TOTAL INTERVENTION DURING FIRST 10 DAYS OF OCTOBER APPROXIMATELY \$427 MILLION.

3. LIRE DEPRECIATED MARKEDLY VIS-A-VIS ALL OTHER MAJOR CURRENCIES DURING PERIOD. BOI WEIGHTED AVERAGE INDEX INDICATES 1.46 PERCENT LIRE DEPRECIATION FROM OCTOBER 1 TO OCTOBER 10.

4. REVISED AUGUST BALANCE OF PAYMENTS DATA SHOW \$66 MILLION ADJUSTED SURPLUS. COMMERCIAL CREDITS (\$605 MILLION), OTHER CAPITAL (\$98 MILLION), POSITIVE ENTRY IN SERVICES ACCOUNT (\$98 MILLION) AND SLIGHT IMPROVEMENT IN TRADE BALANCE (\$32 MILLION) WERE MAJOR FAVORABLE ITEMS. ERRORS AND OMISSIONS WERE RECORDED AT NEGATIVE \$124. MILLION.

5. IN DISCUSSING ITALIAN FINANCIAL SITUATION THROUGH END OF YEAR, ERCOLANI SAID ITALIANS HAD DISCUSSION WITH IMF STAFF AT ANNUAL MEETING OVER NEED FOR ITALIAN SECOND TRANCHE DRAWING FROM FUND OIL FACILITY. FUND STAFF TAKING POSITION THAT ITALY MUST SHOW STRONG NEED, I.E., REDUCTION IN RESERVES, SINCE OTHER COUNTRIES ARE AHEAD IN CUE. ERCOLANI IMPLIED GOI MAY STILL NEED DRAWING BEFORE END OF YEAR, DEPENDING ON EXCHANGE MARKET DEVELOPMENTS. ALSO, THERE IS SOME POSSIBILITY THAT EC \$1.8 BILLION SHORT-TERM CREDIT DUE IN DECEMBER MAY NOT BE IMMEDIATELY CONVERTED INTO NEW MEDIUM-TERM EC CREDIT. IT IS CONCEIVABLE THAT ITALINAS WOULD HAVE TO REPAY SHORT-TERM CREDIT AND THEN RECEIVE NEW MEDIUM-TERM CREDIT EARLY IN 1975. THIS WOULD POSSIBLY CREATE A SHORT-TERM PAYMENT PROBLEM FOR ITALY. LIMITED OFFICIAL USE

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(EMBASSY MORE INCLINED TO THINK THAT FURTHER EXTENTION OF SHORT-TERM CREDIT IS LIKELY IF AGREEMENT NOT REACHED IN DECEMBER ON CONVERSION OF LOANS.

6. ON OCTOBER 10, LIRA EXCHANGE RATE WAS 667.425 LIRE PER DOLLAR, THREE-MONTH FORWARD RATE WAS 682.925 AND WIGHTED AVERAGE DEVALUATION OF LIRE, ACCORIDNG TO BOI INDEX, WAS 20.23 PERCENT. ON SAME DATE, THREE-

MONTH EURO-LIRA INTEREST RATE WAS 20 1/8 PERCENT AND
LIR INTERBANK INTEREST RATES WERE 16.5625 (48-HOUR RATE)
AND 17.8125 (THREE-MONTH RATE).

7. FINACIAL DAILY IL GLOBO SPECULATED ON OCTOBER 9
THAT DURING COLOMBO-SIMON MEETING OCTOBER 4, US
AUTHORITIES ENCOURAGED BANK OF ITALY TO LET LIRA RATE
DEVALUE FURTHER. ARTICLE SAYS THAT EC MAY ALSO HAVE
EXERTED PRESSURE FOR SAME PURPOSE. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FOREIGN EXCHANGE RATES, LIRA
Control Number: n/a
Copy: SINGLE
Draft Date: 11 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME14125
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740290-0246
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741052/aaaabsfc.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 04 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 APR 2002 by boyleja>; APPROVED <30 JUL 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005